

TOWN OF ELMER CITY
Okanogan County, Washington
January 1, 1993 Through December 31, 1994

Schedule Of Findings

1. The Town Of Elmer City Should Comply With Bond Covenants

During our audit, we found that the town is not maintaining revenue, debt service, and reserve requirements as required by the town's 1994 Water and Sewer Bond Refunding Ordinance 224. In addition, the town is not enforcing liens on delinquent utility service and sewer assessments as detailed in Findings 2 and 3 of this report.

- a. Section 6.02 of the Ordinance, titled Rates and Charges, requires sufficient rates to be charged to (1) maintain the system, service the debt and fund any other obligations of the system and (2) meet the Net Revenue requirement of 1.25 times the Maximum Annual Debt Service. The town's 1994 Water and Sewer Fund Net Revenue was only .93 times the Maximum Annual Debt Service.
- b. Section 5.02 of the Ordinance, titled The Bond Fund, requires monthly payments to the debt service account to accumulate \$17,886 by December 31, 1994, towards the bond payment due March 1, 1995. The fund was \$750 short of this requirement on December 31, 1994.
- c. Section 5.02 further requires that a bond reserve account be established by combining the refunded bond reserves and that the unfunded portion of the reserve account will be deposited from the proceeds of the bonds. The reserve requirement as of December 31, 1994, is \$34,500. The actual fund balance at December 31, 1994, was \$27,885, a deficiency of \$6,615.

The water and sewer operating funds have a combined fund balance of \$4,686 as of December 31, 1994, which is insufficient to meet the shortages in the debt service and reserve accounts. The maximum annual debt service requirement is based on the debt payments due in 1995.

The town's water/sewer long-term debt was previously financed by loans from Farmers Home Administration and the annual debt service was less than \$28,000 per year. The town refunded these loans at the request of Farmers Home Administration in 1994. The debt repayment period decreased by ten years and the interest rate increased. The new annual debt service requirement has increased to an average of over \$32,500, with the largest being \$36,890 for 1995.

We recommend the town comply with bond covenants as outlined in the bond ordinance and take any necessary action to ensure all future requirements are met.

2. Town Officials Should Discontinue Utility Services To Delinquent Accounts As Required By RCW 35.21.290-300

Our review of utility accounts revealed, as of December 31, 1994, approximately 12 percent of the town's utility accounts have outstanding balances over 90 days old. The town bills accounts monthly. Thus, when a bill is 90 days old, the property has been provided four months service.

RCW 35.21.290 limits a town's lien on the property for water services to four months services.

RCW 35.21.290 states in part:

Cities and towns owning their own water works . . . shall have a lien against the premises to which water . . . services were furnished for four months charges therefor due or to become due, but not for any charges more than four months past due (Emphasis added.)

As of December 31, 1994, the town continued to provide services to all of these delinquent accounts. RCW 35.21.300 requires the city to discontinue services to enforce the lien for unpaid service.

RCW 35.21.300 states in part:

(1) The lien for charges for service by a city water works . . . may be enforced only by cutting off the service until the delinquent and unpaid charges are paid

In Elmer City Ordinance 224, which authorized the issuance of the town's Water and Sewer Revenue Refunding Bonds, Series 1994, the town pledged to the purchasers of the bond, that no free service would be provided from the system.

The failure of town officials to terminate water services to delinquent accounts can result in the loss of substantial utility income.

The town is not meeting the debt service and reserve account requirements of the bond issue due to lack of funds as noted in Finding 1 of this report. The lack of collection of these charges could have a direct impact on the town's ability to meet the payments due to bond holders.

We recommend that the town officials enforce collection of delinquent water utility accounts by discontinuing services to the property pursuant to the provisions of RCW 35.21.290 and 35.21.300.

3. The Town Of Elmer City Should Foreclose On Delinquent Local Improvement Assessments As Outlined In Chapter 35.50 RCW

During our audit of the town we found that local sewer improvement assessments were not being collected when due. We reviewed the town's 1994 assessment billing in the amount of \$7,341, including past due balances, which was due on or before November 30, 1994. Of the amount billed, \$5,794 was outstanding on December 31, 1994, \$5,741 included unpaid balances from the 1993 billing and the property should be foreclosed. A majority of these accounts have been delinquent since 1986. No action has been taken by the town to foreclose on the delinquent assessments.

RCW 35.50.030 states in part:

If on the first day of January in any year, two installments of any local improvement assessment are delinquent, or if the final installment thereof has been delinquent for more than one year, the city or town shall proceed with the foreclosure of the delinquent assessment

The town could lose a substantial amount of revenue if assessments are not collected.

RCW 35.50.050 states in part:

. . . action must be commenced within ten years after the assessment becomes delinquent or within ten years after the last installment becomes delinquent, if the assessment is payable in installments

Town of Elmer City Ordinance 224, Section 6.06 states in part:

. . . the town will not furnish or supply or permit the furnishing or supplying of any service or facility furnished by or in connection with the operation of the system, free of charge to any person, firm or corporation

The town is not meeting the debt service and reserve account requirements of the bond issue due to lack of funds as noted in Finding 1 of this report. The lack of collection of these assessments could have a direct impact on the town's ability to meet the payments due to bond holders.

The town's ordinance does not provide for a penalty when assessments are not paid. The interest rate on the bonds is 6 percent. When an assessment is not paid, the owner just pays the town an additional year of interest on the unpaid installment. If the town does not foreclose, there is no incentive to make the payment.

We recommend that the town foreclose on delinquent local improvement assessments in accordance with Chapter 35.50 RCW.

4. The Town Of Elmer City Should Prepare And Submit The Annual Report Within The Prescribed Time

In our Report No. 55237 dated September 3, 1993, we reported that the town did not submit its annual report within the prescribed time. The Town of Elmer City's Annual Financial Reports for 1994 and 1993 were not prepared and submitted to the Office of State Auditor and made available for public review within 150 days after the close of each fiscal year. The 1993 report was submitted almost one year late. The 1994 report was not complete as of June 7, 1995, when we began our audit.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year . . . Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

When financial reports are not prepared and filed as required, the users of these reports are denied access to the town's financial information. Such users include:

- a. The taxpayers within the town.
- b. The state legislature, which receives a copy of the annual volume of comparative statistics for all municipalities, published pursuant to RCW 43.09.230.

In addition, when the information provided in the town's financial statements and schedules is not available in a timely manner, audit time and costs could be significantly increased.

The town was delayed in the preparation of their financial reports because they have failed to commit adequate resources to meet the annual deadline.

We recommend that the town submit the annual report within 150 days after the close of the fiscal year.

5. The Town Of Elmer City Should Monitor The Budget To Ensure That Expenditures Are Within Budget Appropriations

In our Report No. 55237 dated September 3, 1993, we reported that town officials had not monitored the budget, which resulted in expenditures exceeding appropriations. We again found that the town's expenditures exceeded appropriations for 1994 as follows:

<u>Year</u>	<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Amount Exceeded</u>
1994	Current Expense	\$69,449	\$71,895	\$2,446
1994	Water	31,400	33,673	2,273
1994	Sewer	48,385	49,786	1,401

RCW 35.33.121 states in part:

. . . the expenditures of a city or town funds or the incurring of current liabilities on behalf of the city or town shall be limited to . . . the total amount appropriated for each fund in the budget for the current fiscal year

RCW 35.33.125 states in part:

The Clerk shall issue no warrant and the city or town legislative body or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund

We recommend that the town monitor the budget so that expenditures will not exceed appropriations.

6. The Town Of Elmer City Should Deposit Cash In A Timely Manner

In our Report No. 55237 dated September 3, 1993, we reported that bank deposits are not made in a timely manner. We have again found that funds are not being deposited in a timely manner. We reviewed all receipts during December 1994. Receipts dated after December 13, 1994, were not deposited at the bank until January 20-27, 1995. We scanned bank statements during the audit period and determined that it was common practice to prepare deposits weekly and deposit them in the bank only once or twice a month.

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

We recommend that the town deposit funds at the bank in a timely manner.

7. The Regional Board Of Mayors Should Comply With The Financial Assurance Requirements Of Department Of Ecology

The Regional Board of Mayors (RBOM), established by an interlocal cooperative agreement between the City of Grand Coulee and the Towns of Electric City, Coulee Dam and Elmer City, operates a Municipal Solid Waste Landfill on property owned by Grant County. The RBOM has failed to:

- a. Adequately fund the financial assurance accounts for closure and post-closure costs associated with the landfill from user fees. In 1991, a study was completed which projected the landfill to close in the year 2030. The landfill closure was estimated to cost approximately \$980,389 (in 1989 dollars). As of December 31, 1994, only \$6,347 had actually been dedicated as a reserve for these costs.

The study estimated it would cost \$11,628 per year (in 1989 dollars) after the closure process was complete to monitor the landfill for health hazards. At the time of the study, it was estimated that the site would need to be monitored for 20 years. As of December 31, 1994, only \$10,124 had been reserved for these costs.

The board is not allocating a portion of user fees, instead they are funding an unrestricted trust fund from the four members of the RBOM and the contractor who collects refuse from the surrounding areas. A portion of this trust is allocated annually at the boards discretion to closure and post-closure reserves. Other users of the landfill contribute nothing to this trust.

- b. Modify the closure and post-closure plans when changes in operations will affect the plans. The plan is based on an annual increase in usage of less than 1 percent. The RBOM is accepting waste from new sources outside the county in 1993 and 1994. The RBOM has taken some actions that may increase the landfill capacity, however, the board has not had the operations reviewed to ensure the action is sufficient to offset the increased activity.
- c. Annually adjust the 1989 cost estimates for the effects of inflation. The RBOM has not made any adjustments to the cost estimates for inflation.
- d. Modify the plan to comply with the new requirements of WAC 173-351, effective October 1993. The new WAC requires the post-closure period to be extended to 30 years and provides a required formula for determining the annual contribution to the financial assurance account. Under the formula, assuming the original plan is not changed for increased usage and a 2 percent inflation factor, the 1994 contributions should have been approximately \$39,765 verses the actual increase of \$9,205 in the reserves.

WAC 173-304-467 (3) states:

Financial assurance account for closure. Each owner or operator of an applicable landfill disposal facility shall establish a financial assurance account in an amount that, over the life of the facility, will accumulate funds to be equal to the closure cost estimate prepared in accordance with subsection (2) of this section unless otherwise specified.

WAC 173-304-467 (2) (b) states:

Each owner or operator shall prepare a new closure cost estimate in accordance with (a) and (c) of this subsection whenever:

- (i) Changes in operating plans or facility design affect the closure plan;
- (ii) There is a change in the expected year of closure that affects the closure plan

WAC 173-304-467 (2) (c) states:

Each owner or operator shall review the closure cost estimate annually thirty days prior to the anniversary date of the first closure cost estimate. The review will examine all factors, including inflation, involved in estimating the closure cost. Any cost changes must be factored into a revised closure cost estimate and submit the revised cost estimate to the jurisdictional health department for review and approval.

WAC 173-304-467 (4) and (5) provide the same guidance for the post-closure costs associated with the landfill.

WAC 173-304-467 (6) requires a percentage of the facility user fees to the financial assurance accounts to ensure sufficient funding of the approved closure and post-closure plans.

The RBOM's agreement with Grant County effective from January 1, 1989, through March 23, 1995, requires the regional board to establish a financial assurance account in accordance with WAC 173-304-467 and agree to transfer the account if the board ceases operation of the landfill prior to closure and post-closure requirements being met.

WAC 173-351-500 (2)(a) increases the post-closure period to 30 years.

WAC 173-351-600 (5)(c)(iii) requires the annual payment into the trust fund to be the Current Cost estimate of closure and post-closure, adjusted for inflation, less the amount in the trust, divided by the years remaining in the pay-in period.

The RBOM's failure to comply with the requirements above expose the municipalities which comprise the RBOM to the risk that the landfill will be full without sufficient funds to meet the closure requirements of Department of Ecology, resulting in substantial liability without a funding source. In addition, since Grant County owns the land, Grant County would also be liable for the future closure costs. The RBOM permit to operate the landfill is contingent based on the board's compliance with these requirements.

The Towns of Wilbur, Almira and Creston, Chelan County and City of Chelan are also liable for future funding shortfalls through their agreement for landfill use on a pro rata share and no money has been set aside on their behalf for these costs.

The RBOM has an additional \$195,128 in the trust fund, however, the board has chosen not to reserve these funds for closure and post-closure costs because they are planning to perform the work internally as the need occurs. In addition, the board is aware of the operational changes which will have an impact on the estimated date of closure, but have taken no official steps to revise the plans because they feel other action taken will negate the effects.

We recommend:

- a. The RBOM comply with the agreement with Grant County and WAC 173-304, including updating the plan for changes in operations and revising the trust needs based on inflation.
- b. The RBOM reserve the trust funds held needed to meet the requirements of funding the closure and post-closure based on the revised plans.
- c. The RBOM review the requirements of WAC 173-351 for items impacting the plan and adequately fund the revisions.